

Annual Report to Stockholders

MONTGOMERY WARD & CO., INCORPORATED

Chicago, Illinois, January 20, 1927.

To the Stockholders:

The net profit for 1926, as shown by the accompanying audited balance sheet of your Company was \$10,156,299 which compares with \$12,908,498 in 1925, a decrease of \$2,752,199 or 21.32%. The explanation of the smaller net profit in spite of increased sales lies in the fact that 1926 was a year of declining commodity prices resulting in a recession in the margin of gross profit per dollar of sales. Moreover, there was a greater demand than usual for merchandise carrying a relatively lower margin of gross profit. Net profit was further reduced by charging off the expense of opening the Baltimore plant and by additional costs incident to an increased number of catalogues circulated during the year which, of course, has increased the number of new customers.

The net sales for 1926 were \$183,800,865 as compared with \$170,592,642 in 1925, an increase of \$13,208,223 or 7.74%.

On December 31, 1926, current assets were \$48,810,452 and current liabilities \$10,022,036, giving a credit ratio of 4.87 to 1, which compares with a ratio of 3.72 to 1 as of December 31, 1925.

For the fifth consecutive year the balance sheet of your Company at December 31st, shows no Notes Payable outstanding.

Dividends were inaugurated on the Common Stock by declaring \$1 per share payable November 15, 1926. The Preferred Stock of your Company amounting to \$4,249,800 was redeemed on December 31, 1926.

The new additions to Baltimore and Oakland plants have been completed and are in operation. To partially reimburse the Company's treasury for capital expenditures on plants, the Montgomery Ward Properties Corporation was organized during the year and \$5,750,000 of its bonds were issued.

Audited balance sheets of subsidiary companies are appended.

The management of the Company acknowledges and appreciates the loyal co-operation of employees throughout the year.

MONTGOMERY WARD & CO., INCORPORATED
THEODORE F. MERSELES, President

BOARDS

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MONTGOMERY WARD

BALANCE SHEET— (Compared with

ASSETS

December 31, 1926

December 31, 1925

Current and Working Assets:

Cash.....	\$10,148,508.72	\$ 5,476,213.06
Marketable Securities.....	369,566.88	397,186.88
Accounts and Notes Receivable (less reserve) ..	7,066,618.30	5,820,215.82
Inventories of Merchandise and Supplies.....	28,951,255.21	31,951,757.74
Prepaid Spring Catalogue Costs, Insurance, Rents, etc.....	2,274,502.51	2,747,810.90
Total Current and Working Assets.....	\$48,810,451.62	\$46,393,184.40

Investments—Affiliated Companies.....	1,768,779.16	2,152,864.16
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Sinking Fund Deposit—Preferred Stock.....	— — (a)	1,223,848.73
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Fixed Assets:

Equities in Subsidiary Property Corporations,
as per Balance Sheets attached:

Montgomery Ward Properties Corporation. \$	2,213,301.43	— —
Montgomery Ward Section "C" Associates.	1,293,744.48	\$ 1,322,852.95
Montgomery Ward Warehouse Company...	2,224,311.82	961,595.96
Montgomery Ward Warehouse Corporation	— —	1,026,811.37
	\$ 5,731,357.73	\$ 3,311,260.28
Land and Buildings (less depreciation).....	6,564,569.69	11,703,770.57
Machinery and Equipment (less depreciation) ..	4,046,462.84	3,953,318.18
Total Fixed Assets.....	16,342,390.26	18,968,349.03

\$66,921,621.04

\$68,738,246.32

We have audited the accounts and records of Montgomery Ward & Co., Incorporated, covering the year ended December 31, 1926, and certify that the above Balance Sheet is in accordance with the records, and, in our opinion, correctly sets forth the financial position of the Company as at December 31, 1926. After providing for depreciation on buildings and equipment, and for bad and doubtful accounts, a net profit of \$10,156,298.73 has resulted from the operations for the year. Inventories of merchandise and supplies have been valued at cost or market, whichever was lower. There is Contingent Liability in respect to guarantee of the Mortgage Bonds of \$230,000 now outstanding, issued by The Eagle Paper Company, Joliet, Illinois.

ARTHUR YOUNG & CO.,

Chicago, Illinois, January 19, 1927.

Certified Public Accountants.

& CO., INCORPORATED

-DECEMBER 31, 1926
December 31, 1925)

LIABILITIES		December 31, 1926	December 31, 1925
Current Liabilities:			
Notes Payable.....	None		None
Accounts Payable.....	\$4,825,207.88		\$6,803,230.29
Due Customers.....	3,077,771.03		3,049,404.96
Accrued Expenses, including General and Federal Taxes.....	2,119,056.86		2,603,082.40
Total Current Liabilities.....		\$10,022,035.77	\$12,455,717.65
General Reserves.....		2,178,339.07 (b)	326,640.07
Reserve for Real Estate, Buildings, Etc.....		— — (b)	1,735,371.38
Preferred Stock 7% Cumulative: \$100 Par Value—Authorized and Issued.....		— — (a)	4,249,800.00
Class A Stock \$7 per Share Cumulative: 205,000 shares having no par value..... (On liquidation or dissolution receives \$100 per share subject to rights of prior stock)		5,594,037.28	5,594,037.28
Common Stock \$10 Par Value: Authorized 1,285,000 shares. Issued and Outstanding 1,141,251 shares....		11,412,510.00	11,412,510.00
Surplus Created by Conversion of the No Par Value Common Stock to \$10 per Share Par Value (not available for Dividends).....		9,189,737.80	9,189,737.80
Earned Surplus.....		28,524,961.12	23,774,432.14
		<u>\$66,921,621.04</u>	<u>\$68,738,246.32</u>

Comment:

(a) The Sinking Fund heretofore appearing in the balance sheet has been applied toward the redemption of the Preferred Stock, both of these items now being eliminated. Cash has been deposited with duly authorized depositories to redeem on December 31, 1926, all outstanding preferred stock at \$115 per share and accrued dividends. Coincident with this redemption, the Reserves for Sinking Fund and Surplus provided for in the Charter have been restored to Earned Surplus account.

(b) These accounts are combined.

MONTGOMERY WARD & CO., INCORPORATED

INCOME ACCOUNT

For the Year 1926

Net Sales.....	\$183,800,865.00
Merchandise Costs, Operating, Selling and General Expenses, etc., including Interest and General Taxes and Depreciation of Buildings and Equipment.....	173,644,566.27
Net Profit for the Year 1926	<u>\$ 10,156,298.73</u>

EARNED SURPLUS ACCOUNT

As at December 31, 1926

Balance at December 31, 1925.....	\$23,774,432.14
Net Profit for the Year 1926, as above	\$10,156,298.73
Deductions:	
Reserved for Income Tax.....	\$1,350,000.00
Dividends for Current Year on:	
Preferred Stock.....	242,571.00
Class "A" Stock.....	1,427,818.00
Common Stock (Quarter ended Oct. 31st).....	1,137,983.00
Premium on redemption of Preferred Stock.....	557,206.31
Income Tax Claim 1917-1918-1919 (Net charge-off after applying reserve).....	690,191.44
Total Deductions.....	<u>5,405,769.75</u>
Balance—after Deductions	4,750,528.98
Balance at December 31, 1926	<u>\$28,524,961.12</u>

RECORD OF NET SALES

Years ended December 31st

1926.....	\$183,800,865
1925.....	170,592,642
1924.....	150,045,065
1923.....	123,702,043
1922.....	84,738,826
1921.....	68,523,244

MONTGOMERY WARD PROPERTIES CORPORATION

BALANCE SHEET December 31, 1926

ASSETS

Fixed Assets:

Land and Buildings (less depreciation)	\$7,696,753.43
Unamortized Bond Discount and Expense	314,464.68
	<u>\$8,011,218.11</u>

LIABILITIES

Accrued Bond Interest	\$ 47,916.68
First Mortgage Gold Bonds—Series "A"—5%	5,750,000.00
Equity of Montgomery Ward & Co., Incorporated:	
Current Account	\$ 463,301.43
Capital Stock—17,500 shares, \$100 par	<u>1,750,000.00</u>
	2,213,301.43
	<u>\$8,011,218.11</u>

Comment:

Montgomery Ward Properties Corporation (a Delaware Corporation) has an authorized capital of \$3,000,000 represented by 30,000 shares of \$100 par. Of this, 17,500 shares have been issued, all of which are owned by Montgomery Ward & Co., Incorporated.

The Mortgage, dated May 1, 1926, covers land and buildings at St. Paul, Portland and Oakland, having a floor space in excess of 2,425,000 square feet. It will also cover all property hereafter acquired by the Properties Corporation. Under date of March 23, 1926, stockholders representing in excess of 75% of each the Preferred and Class "A" stocks of Montgomery Ward & Co., Incorporated, gave their consent to eventually transferring to the Properties Corporation under this mortgage, the land and buildings located at Chicago, Kansas City and Baltimore, in addition to those locations enumerated above.

Series "A" bonds bearing interest at the rate of 5% per annum have been authorized and issued in the amount of \$5,750,000, redemption to be effected by a Sinking Fund at the rate of 3%, commencing with the year 1928 and each year thereafter, the maturity of this Series being May 1, 1946. The bonds are redeemable as a whole on any interest payment date at company's option at varying rates of premium ranging from 2½% on or before May 1, 1931, to 1% after May 1, 1941.

The plants covered by the mortgage are leased to Montgomery Ward & Co., Incorporated, for a term extending one year beyond the maturity date of any bonds issued under the mortgage, at a rental sufficient to cover interest and sinking fund payments; the company also assuming all taxes, maintenance and operating expenses.

MONTGOMERY WARD SECTION "C" ASSOCIATES

BALANCE SHEET

December 31, 1926

ASSETS

Fixed Assets:

Land and Buildings (less depreciation) \$2,798,556.89

Unamortized Note Discount and Expense 26,525.52

\$2,825,082.41

LIABILITIES

Accrued Note Interest \$ 31,337.93

First Mortgage Serial Gold Notes—5½%..... \$1,500,000.00

Less: Reserved for retirement of Preferred Stock of Section

"B" Associates in hands of public..... 32,000.00

1,468,000.00

Preferred Stock of Montgomery Ward Section "B"

Associates in Hands of Public. 32,000.00

Equity of Montgomery Ward & Co., Incorporated:

Current Account..... \$1,193,744.48

Capital Stock—1,000 Trust Shares, \$100 par..... 100,000.00

1,293,744.48

\$2,825,082.41

Comment:

Montgomery Ward Section "C" Associates (in form of Massachusetts real estate trust) has an authorized capital of \$100,000 represented by 1,000 shares of \$100 par, all of which is issued and held by Montgomery Ward & Co., Incorporated.

Under the mortgage, dated February 10, 1925, which covers the land and buildings at Kansas City containing floor space in excess of 1,464,000 square feet, \$1,500,000 of first mortgage 5½% notes were authorized and issued, maturing serially, \$150,000 commencing February 10, 1927 and each year thereafter, ending with final maturity February 10, 1936. Reservation of \$32,000 of said notes has been made with which to redeem a like amount of Preferred Stock of Montgomery Ward Section "B" Associates maturing November 15, 1927, issued under a declaration of trust of April 21, 1917.

The plant at Kansas City is leased to Montgomery Ward & Co., Incorporated, for a term extending one year beyond the maturity date of the above mentioned notes at a rental sufficient to cover interest and redemption payments; the company also assuming all taxes, maintenance and operating expenses.

MONTGOMERY WARD WAREHOUSE COMPANY

BALANCE SHEET

December 31, 1926

ASSETS

Fixed Assets:

Land and Buildings (less depreciation)	\$3,554,354.60
Unamortized Bond Discount and Expense	38,519.72
	<u>\$3,592,874.32</u>

LIABILITIES

Accrued Bond Interest	\$ 18,562.50
First Mortgage Serial Gold Bonds—5½%	1,350,000.00
Equity of Montgomery Ward & Co., Incorporated:	
Current Account	\$1,724,311.82
Capital Stock—5,000 Shares, \$100 par	500,000.00
	<u>2,224,311.82</u>
	<u>\$3,592,874.32</u>

Comment:

Montgomery Ward Warehouse Company (a Maryland corporation) has an authorized capital of \$500,000 represented by 5,000 shares of \$100 par. This stock is all issued and held by Montgomery Ward & Co., Incorporated.

The mortgage, dated October 1, 1924, covers the land and buildings at Baltimore with a floor space in excess of 1,245,000 square feet. Under this mortgage \$1,500,000 of bonds were authorized and issued, bearing interest at the rate of 5½% per annum, maturing serially at the rate of \$150,000 commencing with October 1, 1926, and each year thereafter up to maturity, October 1, 1935. The bonds are redeemable as a whole on any interest payment date at company's option, at varying rates of premium ranging from 3% on or before October 1, 1926, to ½% April 1, 1935.

The Baltimore plant is leased to Montgomery Ward & Co., Incorporated, for a term extending one year beyond maturity date of the bonds, at a rental sufficient to cover interest and redemption payments; the company also assuming all taxes, maintenance and operating expenses.

MONTGOMERY HARDWARE COMPANY

RECEIPT SHEET
JANUARY 1914

AMOUNT

REMARKS

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